PacificCPE

Age of Agile: Organizational Culture and the Trap of Shareholder Value

Course #4183A

Business

2 Credit Hours

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AGE OF AGILE: ORGANIZATIONAL CULTURE AND THE TRAP OF SHAREHOLDER VALUE

Companies that embrace Agile management can deliver instant, intimate, frictionless value on a large scale. Topics covered in this course include the need to change an organizational culture in order to be Agile and identifying the pitfalls of managing by shareholder value.

LEARNING ASSIGNMENTS AND OBJECTIVES

As a result of studying each assignment, you should be able to meet the objectives listed below each individual assignment.

SUBJECTS

Chapter 1: Changing The Organizational Culture
Chapter 2: The Trap Of Shareholder Value

Study the course materials from pages 1 to 52

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 10

Objectives:

- Recognize the need to change an organizational culture in order to be Agile.
- Identify the pitfalls of shareholder value.

NOTICE

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EXAM OUTLINE

- **TEST FORMAT:** The final exam for this course consists of 10 multiple-choice questions and is based specifically on the information covered in the course materials.

- **ACCESS FINAL EXAM:** Log in to your account and click Take Exam. A copy of the final exam is provided at the end of these course materials for your convenience, however you must submit your answers online to receive credit for the course.

- **LICENSE RENEWAL INFORMATION:** This course qualifies for **2** CPE hours.

- **PROCESSING:** You will receive the score for your final exam immediately after it is submitted. A score of 70% or better is required to pass.

- **CERTIFICATE OF COMPLETION:** Will be available in your account to view online or print. If you do not pass an exam, it can be retaken free of charge.

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CHAPTER 1: CHANGING THE ORGANIZATIONAL CULTURE

Chapter Objective

After completing this chapter, you should be able to:

- Recognize the need to change an organizational culture in order to be Agile.

Culture isn't just one aspect of the game, it is the game.

—LOUIS GERSTNER[1]

For most organizations, the shift to Agile management and Strategic Agility means a change in organizational culture—perhaps the most difficult thing that any organization can attempt. An organization's culture comprises an interlocking set of goals, roles, processes, values, communications practices, attitudes, and assumptions, many of them unspoken. The elements fit together as a mutually reinforcing system and combine to prevent any attempt to change it. That's why single-fix changes, such as the introduction of lean practices or of Agile management, may appear to make progress for a while, but eventually the interlocking elements of the organizational culture often take over and the organization is inexorably drawn back into its preexisting culture.

The bad news: Most efforts to change an organizational culture fail. This causes some people to question whether it is even worthwhile trying. Let's look at an example of success: Curt Carlson's introduction of a culture of innovation at SRI International.

In 1998, when Curt Carlson became president and CEO of SRI, it was practically bankrupt. It had been established in 1946 as a research institute headquartered in Menlo Park, California. The trustees of Stanford University formed SRI as the Stanford Research Institute, a center of R&D and innovation, initially to help support economic development in California and then the world. It is now an independent company.

When Carlson became CEO, the management challenge was massive. SRI had almost run out of money. If it didn't change, it would have to sell off assets. It hadn't made a profit in years. SRI had excellent people and a legendary history as the inventor of the computer mouse, the modern personal computer interface, the first ARPA-net message, ultrasound imaging, and much more. But its organizational culture had become dysfunctional. Carlson's predecessors had tried tighter top-down control, but that crushed innovation. They had tried bottom-up innovation but that led to chaos. The organization was in a spiral of decline. Lack of trust. Lack of collaboration. Failure to share resources. Ineffective operational controls. And poor financial results. SRI's organizational culture had become so toxic that many questioned whether it could survive.

1. L. Gerstner, Who Says Elephants Can't Dance? (New York: HarperCollins, 2003), 182.

Over the next sixteen years with Carlson as CEO, SRI and its organizational culture were transformed. SRI tripled in size, became profitable, and created many world-changing innovations. One of its best-known successes was Siri, the personal assistant on the iPhone.

Under Carlson's leadership, SRI molded its organizational culture to become highly collaborative. It produced a series of market-creating innovations worth billions of dollars. I talked with Carlson about what was involved in the culture change. How did SRI become a serial innovator? Why had he succeeded where so many others have failed? What elements led to success?

Interestingly, one key element in changing SRI's culture was that Carlson never talked about "changing the culture." "People are generally proud of *their* culture," he says. "So if you go into an organization and talk about changing the culture, it makes people wonder: 'What is he talking about? What's wrong with *my* culture?' You don't want people worrying about this. I never once used the word 'culture' at SRI in any of my discussions with the staff. What I talked about was what we needed to do. I had a couple of big themes. And I repeated those themes all the time. I never used the words, 'culture change,'" he says.

What did Carlson talk about? He arrived at SRI with the notion that inventive ideas were not enough. He set out to develop a methodology for rapid, large-scale, serial innovation, starting with a focus on important customer and market needs addressed with compelling hypotheses for both the product offering and the business model. His insight was that, until that was done, all efforts at technical development would be premature, if not a total waste. He had seen most efforts at innovation fail for these reasons—no customers and no business model. His game plan included many of the hallmarks of Agile management: a focus on important customer and market opportunities; rapid, continuous team and customer cocreation; mostly self-organizing teams led by champions; positive human values and incentives; and a specific value-creation methodology that assures a high probability of success. Carlson wanted to go further and develop a value-creation playbook that would apply to the entire enterprise and generate multibillion-dollar innovations on a continuing basis.

Carlson saw that SRI had strengths on which he could build, including being in the center of Silicon Valley. The SRI staff were technically excellent, as they were in most of the companies he had worked in. The problem wasn't the staff. A key problem was the focus of the initiatives being developed. Too often, they were interesting, but not important. The initiatives were managed and developed in an ad hoc fashion. And staff members were working together mostly as individuals, not complete teams.

Carlson had the advantage of arriving at SRI with a track record of successful innovations at the Sarnoff Corporation, a subsidiary of SRI. Carlson had led the initial development of high-definition television (HDTV) and a system to assess broadcast image quality, both of which received Technology and Engineering Emmy Awards. He had pioneered the commercialization of R&D at Sarnoff and helped form over a dozen new companies while he was there.

Given this track record of accomplishment, Carlson had the support of his board, who trusted that he would succeed, even if they didn't have a deep understanding of his value-creation methods. After all, they were mainly senior operating managers—superbly accomplished professionals, but with different skills.

Carlson's track record of technical achievement also gave him credibility with the staff of SRI. He wasn't a marketing guy or a finance whiz. He had lived the life of a scientist and an engineer and had enjoyed success at the highest levels. He had written serious technical papers and given talks at professional conferences. He had the kind of credibility that is important with technical staff, who worried that an incoming CEO might be coming in to "dumb the place down."

Carlson saw that he had to change the basic way in which work got done at SRI. The previous presidents were not bad people. They were highly successful professionals in their previous roles. They were doing what they knew. The problem was that they were using an obsolete management model.

Carlson arrived with the notion that SRI had to make basic changes to focus on important customer and market needs. They would have to develop a value-creation methodology that would allow SRI to deliver higher customer value than its global competitors. The goal was to be the best at delivering new, high-value technical innovations. In a globalized economy, SRI's competition was whichever firm was the best on the planet. He also saw that if SRI was to be financially successful, it would need to be systematically hunting for "big game"—market-creating innovations with the potential of hundreds of millions of dollars of market value.

I asked Carlson what happened when he arrived at SRI and started talking like this.

"Well," says Carlson, "some of the people just loved what I was saying, and some of them hated it. They thought that aspiring to be the best in the world was ridiculous. But I was convinced we could do it, because we had achieved that at Sarnoff.

"I eventually replaced eight vice presidents," he says. "I didn't fire anybody. They were all solid professionals, but they didn't want to work in the new way and they left, one after the other. Because we were basically bankrupt when I got there, we didn't have any money to hire new people. I now think of it with some amusement as a total-immersion method for learning how to create a business!

"Even though we initially had no funds to hire new people, I didn't consider that a handicap," says Carlson. "We were able to find people who wanted to work this way. Just tremendous people. You don't need thousands of people today. You need a few excellent people who want to work collaboratively and productively on important opportunities. When they find a place to work like that, they come and they stay."

There were some difficult moments at the start. Carlson gives one example.

"In my first month, I got a phone call. I learned that a team had moved its laboratory at night from one part of the company to another without telling anybody. Imagine! I called up the vice president and said, 'Do you want to undo this?' He said, 'No, that would be too hard and destructive.' So, I called a meeting that brought everyone together," Carlson says. "I explained that from now on, we weren't going to behave that way. If anybody did this again, the entire management chain would have to go somewhere else.

"It sounds like crazy stuff, and it was exactly that: crazy stuff," he adds. "When an organization has been in decline for decades, it becomes dysfunctional. There were all kinds of team-destroying behavior going on. Every week it was something else. People often asked me why I had taken the job. It was because I